



STATE OF DELAWARE

PUBLIC SERVICE COMMISSION

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MEMORANDUM

June 15, 2017

TO: The Chair and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: IN THE MATTER OF THE APPLICATION OF TIDEWATER UTILITIES, INC. FOR THE APPROVAL OF THE SEMI-ANNUAL ADJUSTMENT TO THE DISTRIBUTION SYSTEM IMPROVEMENT CHARGE ("DSIC") EFFECTIVE JULY 1, 2017, PURSUANT TO 26 DEL. C. § 314 (b) (5)
(FILED MAY 19, 2017) – PSC DOCKET NO. 17-0330

On July 9, 2001, the General Assembly and the Governor enacted 26 *Del. C.* § 314, which permits water utilities to impose a Distribution System Improvement Charge ("DSIC Rate") during the period between full rate case proceedings. The DSIC Rate recovers a return on the water utility's eligible capital improvements and its associated depreciation expenses. Eligible capital improvements include non-revenue producing plant projects which are in service, not already included in rate base, and are:

1. Replacement water plant projects, such as mains, services, meters, or hydrants that are worn out, deteriorated, or negatively impact water quality or reliability of service;
2. Extensions to eliminate dead ends which negatively impact water quality or reliability of service;
3. Relocations of facilities due to government actions such as highway relocations;
4. Water plant projects identified in the Governor's Task Force Report concerning adequate water supplies; or
5. New or additional plant facilities necessary to meet changes in federal or state water quality standards, rules, or regulations.

The DSIC Rate can be adjusted semi-annually for eligible plant placed in service during the 6-month period ending two month prior to the effective date of the applied-for DSIC Rate. DSIC Rate filings can be made semi-annually by December 1 or June 1 of every year, with an effective date of 30 days after the respective filing. A water utility calculates the DSIC Rate as a percentage of a customer's total water

charges, then adds this charge to the customer's water utility bill. Between rate cases, the DSIC revenues are capped at 7.5% of the amount billed to customers under the Commission-approved rates and charges. However, a water utility company's collective DSIC Rate revenues cannot exceed 5% of its total revenues in any 12-month period.

On May 19, 2017, Tidewater Utilities, Inc. ("Tidewater") filed an application ("Application") to reset its DSIC Rate. Tidewater's current DSIC Rate of 2.44%, effective January 1, 2017, was approved on December 20, 2016 by way of Commission Order No. 9004. On June 5, 2017, Tidewater filed a revised application ("Revised Application"), as detailed below, seeking approval to adjust its current DSIC Rate to 2.43% with an effective date of July 1, 2017. The proposed DSIC Rate is based on a net additional plant of \$551,704 and an associated semi-annual depreciation expense of \$2,439.

Tidewater originally sought approval of a DSIC Rate of 2.44%. It was discovered during Staff's audit review of PSC Docket No. 16-0656, which was Tidewater's DSIC Rate for the period July 1, 2016 – December 31, 2016, that certain Retirement Costs had been understated as originally filed. After discussions with Staff, Tidewater's Revised Application properly accounts for the total Retirement Costs from Docket No. 16-0656, which are memorialized in the revised schedules in this Docket. The Retirement Costs adjustment, along with the over-collection reconciliation adjustment from Staff's audit review of PSC Docket Nos. 15-1576 and 16-0656, resulted in a DSIC Rate calculation of 2.43%.

Accordingly, Staff recommends that the Commission permit this DSIC Rate to become effective July 1, 2017, but remain subject to Staff's review, audit, and annual reconciliation on a 12-month period ending December 31, 2017.